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SUBJECT: A/S WAYNE ENGAGES GOK ON TRADE, TIFA, TAXES, AND
INVESTMENT

REF: KUWAIT 5184

11. (SBU) SUMMARY: On January 7, A/S Wayne and Treasury DAS Ahmed Saeed, accompanied by the Ambassador, NEA/ARPI Deputy Director Steve Walker, EB Financial Economist Roland de Marcellus, and Econoff, met separately with Minister of Finance Bader Al-Meshari Al-Humaidhi, Minister of Commerce & Industry Abdullah Abdul Rahman Al-Taweel, and Minister of Foreign Affairs Shaykh Dr. Mohamed Sabah Al-Salem Al-Sabah to discuss the status of the U.S.-Kuwait Trade and Investment Framework Agreement (TIFA) and other trade-related issues, including the WTO Hong Kong Ministerial, taxes, implementation of Kuwait's new foreign investment law, Project Kuwait, and student visas. Al-Taweel and Al-Sabah both affirmed Kuwait's interest in the TIFA, and confirmed that a delegation of technical experts would meet with USTR in late January. Both Al-Humaidhi and Al-Taweel agreed that the tax law needs to be changed, with Al-Taweel showing frustration over the issue and Al-Humaidhi blaming the law itself, not how it has been implemented. END SUMMARY.

TIFA - Stalled But Still on the Table

12. (SBU) Commerce Minister Al-Taweel confirmed that Commerce Undersecretary Hamid Al-Ghanim, who also attended the meeting, would lead a delegation of technical experts to meet with USTR in late January in continuation of the TIFA dialogue (Reftel); Al-Taweel said that it will be "a big team going." During a separate meeting, Foreign Minister Al-Sabah raised the TIFA, saying that it is generating "a lot of excitement" in Kuwait, and could have "a profound impact on our reform package." Al-Sabah stated his desire to reaffirm the GOK's commitments to the TIFA process, to which A/S Wayne responded by emphasizing the TIFA's importance to the USG.

Tax Law is "Unacceptable"

13. (SBU) Responding to A/S Wayne's question about the sudden, inconsistent, and retroactive application of Kuwait's tax laws that has resulted in enormous tax bills for several U.S. companies, Commerce Minister Al-Taweel stated that he did not know why the law is being applied as it is now. Similarly, Finance Minister Al-Humaidhi, under whose authority the tax office falls, called it "an unacceptable law" and said that the Ministry of Finance has submitted proposed changes to the parliament. These include a reduction of the tax rate from 55% to 15%, included using the 15% percent rate to calculate retroactive tax bills. Al-Humaidhi was quick to blame the law itself for the problem; however, he did not address the inconsistent

implementation by the tax office. Commerce Minister Al-Taweel, clearly expressing frustration with the tax issue and acknowledging its impact on Kuwait's FTA prospects, blamed the tax authority.

Hong Kong Ministerial a Minimal Success

¶4. (SBU) Al-Taweel, who attended the December 2005 WTO Hong Kong Ministerial, called it a "minimal success," saying that "it wasn't what we wanted, but it's something." He stated that agricultural subsidies are a "huge problem," and called the U.S. willingness to end its subsidies "very helpful." Al-Taweel stated his regret at the missed opportunity for a better trade deal, but was pleased that there was some progress and hoped the EU would back-down on its own subsidies.

Economic Boom, Foreign Investment, & Project Kuwait

¶5. (SBU) Al-Taweel stated that the economic boom in Kuwait continues unabated. The private sector is expanding and the GOK is building up its foreign exchange reserves on the back of high oil prices. Foreign companies are playing a big part in the boom, and there had been "good movement" on implementing the new foreign investment law. For the time being, he said, U/S Al-Ghanim is temporarily in charge of implementation. A recent UN Development Program (UNDP) study, with which Al-Taweel stated his agreement, recommended that the Foreign Investment Office should be moved out of the Commerce Ministry and exist as a stand-alone entity, and this

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was the direction he advocated.

¶6. (SBU) Infrastructure projects are hot investments, Al-Taweel said, especially in the oil sector, where \$44 billion will be invested over the next 20 years to upgrade the existing infrastructure. On the subject of Project Kuwait, the GOK's plan to double output to 900,000 bpd from four northern oil fields, he was "not worried" about the enabling legislation's eventual success in the National Assembly, but did not know when that might occur. A/S Wayne noted that there are numerous potential U.S. partners for Project Kuwait. Al-Taweel welcomed this, saying "there's no reason we shouldn't have the foreign oil companies" since they have the technical abilities for the project to succeed.

Student Visas

¶7. (SBU) Al-Taweel, A/S Wayne, and the Ambassador briefly discussed the declining number of Kuwaitis studying in the United States. Al-Taweel, noting that many of the GOK's leaders are U.S. graduates, stated his concern that the decline in the number of U.S. graduates in Kuwait could have negative political consequences for the future. He thought this especially so if those students are educated in other Arab countries.

¶8. (U) A/S Wayne and DAS Saeed have cleared this cable.

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